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The Director of Central Intelligence

Washington, D.C. 20505

National Intelligence Council

NIC #02943-84
17 May 1984

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

FROM: Maurice C. Ernst, NIO for Economics

SUBJECT: Impact of Air Attacks on Persian Gulf Tankers

1. Iraqi and Iranian air attacks against oil tankers in the Persian Gulf have begun to impact significantly on the spot oil market and to raise the cost of oil shipments from the Gulf. The market has reacted to:

- o The increasingly apparent pattern of Iraqi attacks against tankers calling at Kharg Island--about one attack a week--which, together with official Iraqi statements, indicate a systematic campaign against Iranian oil exports rather than just ad hoc warnings.

- o Three Iranian attacks against tankers bound to or from Kuwait.

2. The frequency of attacks is unlikely to increase until late summer so long as Iran continues its tit for tat policy. With only five Super Etendard aircraft capable of attacking ships well beyond Kharg Island and carrying EXOCET missiles, Iraq probably cannot launch attacks more than once a week or so without risking unacceptable aircraft losses. A continuation of the recent frequency of attacks by both sides would cause some disruptions, but no major impact in world oil markets.

- o Insurance rates to Southern Gulf ports would increase and some companies would pull out, but the flow of oil would continue, as it has from Kharg Island in the past month despite air attacks.

- o The market is reacting not only to the number of attacks and the number of tankers hit, but also to the amount of damage. So far 8 to 10 tankers have been hit by Iraqi and Iranian actions. None were sunk, although one was damaged badly enough so that

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the ship may be lost; only one other was fairly severely damaged, the others requiring only moderate repairs; about two crewmen or so were killed and a dozen wounded; none of the cargoes have been lost. Damage of this magnitude is clearly an insurable risk and not nearly sufficient to halt the flow of oil.

- o Even if there were some reduction in oil shipments from Iran and Kuwait, there is more than enough excess capacity elsewhere in the Gulf and outside, and a willingness to use this capacity to make up for these losses.

3. The situation will change dramatically in late summer, when acquisition of Mirage F-1 aircraft will increase Iraqi capabilities against tankers by a factor of five or more. By late August, Iraq should be able to attack at a rate of a tanker a day on the average. This could virtually stop shipments from Kharg and the Iranians would probably launch attacks against all Gulf tanker shipping and/or try to close the Straits of Hormuz. Even with a tit-for-tat Iranian reaction, there would be a dramatic decline in oil shipments from the Gulf. Instead of just raising the cost of shipping from that area, the attacks would make Gulf oil shipments uninsurable. And none of the large companies would be willing to risk the voyage without insurance.

4. Given the announced Iraqi policy of stopping the flow of Iranian oil, the fact that the Iraqis are using all their current capabilities to that end, the large projected increase in Iraqi capabilities and the pattern of Iranian reaction, the risks are very high that we will face a severe crisis late this summer, if Iraq cannot be dissuaded from continuing on its present course.

Maurice C. Ernst

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